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SUBJECT: LEBANON: MOBILE PRIVATIZATION DELAYED (ECONOMIC WEEK IN REVIEW, MARCH 24 - 30, 2008)

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DELAYS EXPECTED IN MOBILE PRIVATIZATION,  
MANAGEMENT CONTRACT TO BE RENEGOTIATED

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¶11. (SBU) Senior contacts at the Ministry of Telecommunications (MOT) and the Higher Council for Privatization (HCP) told us on March 28 that mobile privatization will be delayed. The deadlines for submitting bids and for conducting the auction for the sale of Lebanon's two mobile companies expire on May 1 and 21, respectively.

The MOT source believes it would be best if the GOL does not set new bid/auction deadlines, but instead indicates that "a new date will be announced in due time." Telecom Minister Hamadeh has repeatedly said publicly that the privatization of the two mobile companies will not take place under the current government.

¶12. (SBU) The MOT source pointed out that the management contract for the two mobile companies, which was extended from May 2008 until November 2008 by the Council of Ministers on February 28, 2007, needs to be re-negotiated, adding that negotiations could start in the coming weeks. By virtue of the contract, the MOT has to inform the two management companies of any extension six months before the expiration of the contract. He also said that neither company is willing to extend under the same terms.

GENERAL LABOR CONFEDERATION WARNS OF  
STRIKE IF MINIMUM WAGE IS NOT RAISED

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¶13. (U) The General Labor Confederation (GLC) warned on March 26 that

it would prepare for a general strike if the minimum wage is not raised to \$640/month, from the current \$200/month (unchanged since 1996). In addition to that, it is asking for a 63.3 percent wage raise above the minimum wage hike. Employers have only accepted a single \$50 increase to the minimum wage. According to pro-opposition Al-Akhbar newspaper, the strike would take place sometime after April 22, the next scheduled date for presidential elections. The GLC also expressed support for the protest that Lebanese University teachers and teachers' unions and syndicates will stage on April 3 to call for salary increases.

LEBANON'S BANKING SECTOR NOT  
AFFECTED BY U.S. FINANCIAL CRISIS

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**14.** (SBU) A senior member of the Banking Control Commission (BCC) told us on March 25 that Lebanon's banking sector has not been affected by the financial crisis in the U.S. The source explained that the Central Bank of Lebanon (CBL) prohibits banks from subscribing in foreign funds and papers except in sovereign papers of OECD countries. The BCC found only one bank that had lost money (less than half a million dollars) because of products related to the U.S. credit crisis; this is a very small amount given that this bank has total assets of several billion dollars, the source remarked.

MOODY'S RAISES LEBANON'S  
CREDIT RATING OUTLOOK...

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**15.** (U) On March 25, Moody's Investors Services raised Lebanon's credit rating outlook from negative to stable. Moody's attributed this improvement to the "impressive resilience of Lebanon's public finances" in the face of ongoing political instability. Lebanon's rating outlook fell to negative in November 2006, with the fears

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related to the government's repayment capacity given the large public debt. According to Moody's, since then public finances have improved modestly, and the GOL's short-term funding needs are manageable. This change of outlook applies to the GOL's B3 local and foreign currency bond ratings, the B3 country ceiling for foreign currency bank deposits, and the B2 country ceiling for foreign currency bonds.

...AS WELL AS THE OUTLOOK  
FOR FOUR TOP BANKS

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**16.** (U) Moody's also raised its outlook from negative to stable on March 27 for Bank Audi, BLOM, Byblos Bank, and Bank of Beirut. According to Moody's, this was a result of the outlook upgrade for Lebanon's credit rating, since these banks hold significant amounts of bonds. The banks' ratings however, remain unchanged.

NATIONAL SOCIAL SECURITY FUND  
INAUGURATES FIRST COMPUTERIZED BRANCH

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**17.** (U) On March 26, the first fully computerized branch of the National Social Security Fund (NSSF) was inaugurated in Beirut, while the computerization of all branches is expected by June 2008, at an estimated cost of \$3.7 million. This is part of a wider NSSF reform program aimed at streamlining procedures, increasing productivity, coverage, and services provided, as well as balancing NSSF finances. The World Bank is also involved with the reform program at the NSSF; it provided technical assistance and a \$750,000 grant last September for this purpose.

YOUTH SHADOW GOVERNMENT TO BE  
TRAINED ON CONSUMER RIGHTS

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**18.** (U) On March 17, the Minister of Economy and Trade Sami Haddad launched a cooperation project between the MEPI-funded youth shadow government and the Consumer Protection Unit at the Ministry of

Economy and Trade. The project aims to train selected university students on consumer rights over a two-month period to reinforce their role in the development of public administration. Haddad noted the Ministry is also looking at ways in which those trained would use their spare time to participate directly in the Consumer Protection Unit's activities.

S&P REPORT EVALUATES  
LEBANON'S BANKING SECTOR

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**¶9.** (U) A Standard and Poor's (S&P) report entitled "Lebanese banks plant cedars abroad while resisting the political impasse," published on March 17, noted that banks are expanding abroad to avoid high direct exposure to the intrinsic risks of operating in Lebanon. Meanwhile, the GOL's high indebtedness, fiscal deficit, and political instability, along with the country's low ratings, pose a serious threat to any bank in the system. S&P identified four main characteristics of the Lebanese banking sector, including the value of banks' assets (over three times the country's GDP), high dollarization of deposits, the elevated number of banks, and the improved quality of assets.

TRAVEL AND TOURISM ECONOMIC ACTIVITY  
EXPECTED TO FALL BY 7.4 PERCENT IN 2008

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**¶10.** (U) The 2008 World Travel and Tourism Council (WTTC) report on Lebanon noted that the political stalemate will continue in the coming year and affect the travel and tourism sector accordingly. Travel and tourism industry economic activity is on track to register a negative 7.4 percent drop in activity. There was a 25.4 percent regression in industry activity in 2007. Total demand for travel and tourism is expected to grow by 0.4 percent compared to 2007, while Lebanon's share out of total demand in the Middle East is projected at 3.6 percent in 2008. The travel and tourism industry contribution to GDP is estimated at 5.7 percent in 2008, while the sector will account for 18.4 percent of total employment, compared to 9.3 percent in 2007.

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